



Petroleum Market Report

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Energy Information Administration
Office of Oil & Gas

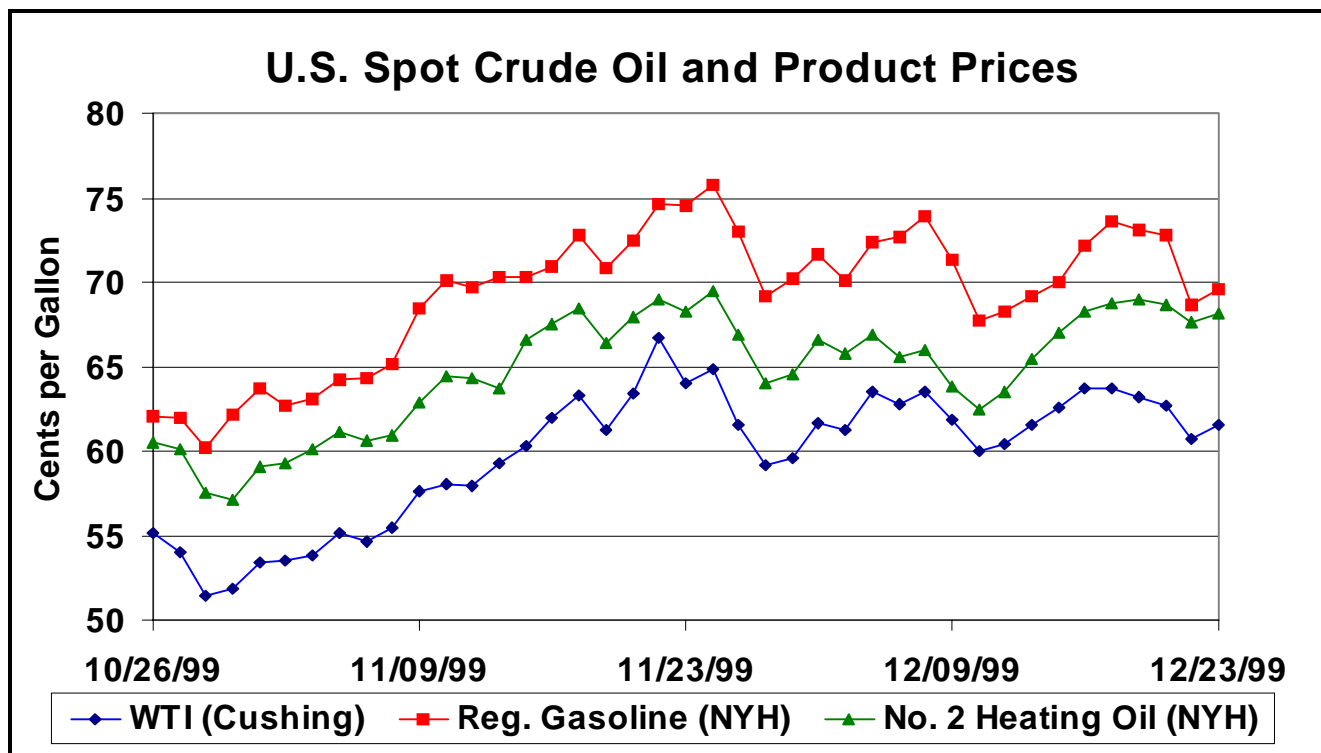
MARKET SUMMARY

Petroleum spot and futures markets in the United States remained active last week, despite thin trading ahead of the Christmas holiday weekend. Prices generally moved lower through Wednesday, before rising moderately in pre-holiday shortcovering on Thursday. The resumption of Iraqi oil exports, expiration of the January NYMEX crude oil contract, and smaller-than-expected crude stockdraws were all cited as causes for market softening early in the week. Holiday and year-end effects, such as low trading volume and liquidation of open positions, were also seen as influences on market activity.

Crude oil - prices eased Monday and Tuesday, retreating from the 3-week highs seen late the previous week. NYMEX January contract expiration played a role in Monday's decrease, while the restarting of Iraqi crude oil exports, though well-known in advance, appeared to have a dampening effect on markets. A sharper drop on Wednesday was seen as the result of small stockdraws in weekly reports from both API and EIA, when much larger inventory declines had been widely expected. Thursday's small gains were attributed to shortcovering after Wednesday's losses and ahead of the 3-day weekend.

Gasoline - largely took direction from crude oil prices, with additional downward pressure from reports that recent strong demand is partially the result of Y2K-related secondary stocking, which would presage weaker-than-normal demand after New Year's. A solid stockdraw for the week ending December 17 failed to impress traders on Wednesday, leaving gasoline the weakest element in petroleum markets.

Distillate - prices finished barely lower for the week, as a strong stockdraw and forecasts of colder weather blunted the impact of weaker crude prices. Primary stocks dropped below the seasonal average range as of December 17, but appeared to reflect some degree of secondary and tertiary stockbuilding.



CHRONOLOGY OF RECENT MARKET EVENTS

- 12/23 - rising** - crude oil and product prices turned moderately higher on the last trading day before the 3-day Christmas weekend. Fundamental market drivers were scarce, with most movement seen as the result of pre-holiday shortcovering.
- 12/22 - falling** - spot and futures prices fell across the board for the second straight day, with losses largely attributed to smaller-than-expected crude oil stockdraws in weekly reports from both API and EIA. Year-end liquidations by traders were also cited, along with technical selling as prices dropped below support levels.
- 12/21 - falling** - all prices posted modest declines on the first day of trading for February NYMEX crude oil as the front-month contract. Trading volumes remained light, while prices softened in spite of expectations that the weekly API and EIA reports would show crude oil and product stockdraws.
- 12/20 - mixed** - prices turned generally downward in thin holiday-week trading, with the resumption of Iraqi exports and the final day of the January NYMEX crude contract cited as major factors in the decline. Only distillate prices moved modestly higher, aided by forecast colder-than-normal temperatures later in the week in the Northeastern U.S.
- 12/17 - mixed** - crude oil prices flattened at the end of a week-long rise, while gasoline and distillates posted another moderate increase. Continued wrangling with the U.N. Security Council over weapons inspections blunted the impact of renewed exports by Iraq.
- 12/16 - rising** - gasoline led a fourth day of price increases across the board, as some refiners were reported cutting runs due to weak margins. WTI neared \$27 per barrel before closing at its highest level since before Thanksgiving.
- 12/15 - rising** - all prices rose further, continuing to offset the previous week's losses, after API and EIA both reported crude oil and product stockdraws generally even larger than expected. Iranian comments supporting continued production cuts added to the upward pressure on prices.
- 12/14 - rising** - prices climbed marketwide for a second day, led by heating oil, ahead of the weekly API and EIA supply reports. Despite the imminent return of Iraqi oil exports to world markets, expectations for crude oil and product stockdraws were the major influence on U.S. prices.
- 12/13 - rising** - spot and futures prices moved moderately upward in light trading, making slight headway against the sharp declines of the previous two days. Technical factors were largely cited for the reversal of direction, as prices had fallen near the low end of their recent trading range.
- 12/10 - falling** - crude oil and product prices fell for a second day, this time in response to U.N. Security Council approval of a new 6-month phase of Iraqi "oil-for-food" sales. The vote, though expected, briefly sent WTI spot and futures prices below \$25 per barrel.